

**REPORT OF THE AUDIT OF THE
PIKE COUNTY
SHERIFF'S SETTLEMENT - 2005 TAXES**

August 28, 2006



**CRIT LUALLEN
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EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
PIKE COUNTY
SHERIFF'S SETTLEMENT - 2005 TAXES

August 28, 2006

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2005 Taxes for Pike County Sheriff as of August 28, 2006. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$19,922,262 for the districts for 2005 taxes, retaining commissions of \$725,927 to operate the Sheriff's office. The Sheriff distributed taxes of \$19,192,802 to the districts for 2005 Taxes. Taxes of \$1,009 are due to the districts from the Sheriff.

Report Comments:

- The Sheriff's Office Lacks Adequate Segregation Of Duties

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Ernie Fletcher, Governor

John R. Farris, Secretary

Finance and Administration Cabinet

Honorable Wayne T. Rutherford, Pike County Judge/Executive

Honorable Charles E. Keesee, Pike County Sheriff

Members of the Pike County Fiscal Court

Independent Auditor's Report

We have audited the Pike County Sheriff's Settlement - 2005 Taxes as of August 28, 2006. This tax settlement is the responsibility of the Pike County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the Pike County Sheriff's taxes charged, credited, and paid as of August 28, 2006, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated January 26, 2007 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky
Honorable Ernie Fletcher, Governor
John R. Farris, Secretary
Finance and Administration Cabinet
Honorable Wayne T. Rutherford, Pike County Judge/Executive
Honorable Charles E. Keesee, Pike County Sheriff
Members of the Pike County Fiscal Court

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The Sheriff's Office Lacks Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

January 26, 2007

PIKE COUNTY
CHARLES E. KEESEE, SHERIFF
SHERIFF'S SETTLEMENT - 2005 TAXES

August 28, 2006

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 1,453,492	\$ 1,530,669	\$ 4,660,870	\$ 1,685,022
Tangible Personal Property	507,335	620,194	2,063,340	1,899,370
Intangible Personal Property				329,475
Fire Protection	7,291			
Increases Through Exonerations	64	67	272	74
Delinquent Solid Waste	2,609,604			
Franchise Taxes	208,905	245,596	839,384	
Additional Billings	6,952	7,500	27,811	44,983
Oil and Gas Property Taxes	639,631	673,594	2,739,659	741,519
Limestone, Sand and Mineral Reserves	702	739	3,008	814
Penalties	21,772	16,634	55,939	20,870
Adjusted to Sheriff's Receipt	70	4,445		(2,083)
Gross Chargeable to Sheriff	<u>5,455,818</u>	<u>3,099,438</u>	<u>10,390,283</u>	<u>4,720,044</u>
<u>Credits</u>				
Exonerations	584,609	13,608	48,925	17,052
Oil & Gas Exonerations	154	162	660	179
Discounts	41,856	44,145	148,166	77,174
Delinquents:				
Real Estate	120,932	126,492	473,929	139,247
Tangible Personal Property	3,200	3,875	8,653	7,328
Intangible Personal Property				3,159
Delinquent Prior Year Bills	338	332	1,475	373
Delinquent Solid Waste	1,875,918			
Uncollected Franchise Taxes	216	233	931	
Total Credits	<u>2,627,223</u>	<u>188,847</u>	<u>682,739</u>	<u>244,512</u>
Taxes Collected	2,828,595	2,910,591	9,707,544	4,475,532
Less: Commissions *	<u>120,503</u>	<u>123,700</u>	<u>291,226</u>	<u>190,498</u>
Taxes Due	2,708,092	2,786,891	9,416,318	4,285,034
Taxes Paid	2,707,552	2,786,413	9,414,548	4,284,289
Refunds (Current and Prior Year)	<u>284</u>	<u>231</u>	<u>1,264</u>	<u>745</u>
Due Districts		**		
As of Completion of Fieldwork	<u>\$ 256</u>	<u>\$ 247</u>	<u>\$ 506</u>	<u>\$ 0</u>

* and ** See Next Page

The accompanying notes are an integral part of this financial statement.

PIKE COUNTY
CHARLES E. KEESEE, SHERIFF
SHERIFF'S SETTLEMENT - 2005 TAXES
August 28, 2006
(Continued)

* Commissions:

10% on	\$	10,000
4.25% on		10,204,718
3% on		9,707,544

** Special Taxing Districts:

Library District	\$	200
Health District		47
Due Districts	\$	<u>247</u>

PIKE COUNTY
NOTES TO FINANCIAL STATEMENT

August 28, 2006

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

PIKE COUNTY
NOTES TO FINANCIAL STATEMENT
August 28, 2006
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of August 28, 2006, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Tax Collection Period

The real and personal property tax assessments were levied as of January 1, 2005. Property taxes were billed to finance governmental services for the year ended June 30, 2006. Liens are effective when the tax bills become delinquent. The collection period for these assessments was November 30, 2005 through August 28, 2006.

Note 4. Interest Income

The Pike County Sheriff earned \$3,064 as interest income on 2005 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder is to be used to operate the Sheriff's office. As of January 26, 2007, the Sheriff owed \$156 in interest to the school district and \$126 in interest to his fee account.

Note 5. Sheriff's 10% Add-On Fee

The Pike County Sheriff collected \$100,039 of 10% add-on fees allowed by KRS 134.430(3). This amount is to be used to operate the Sheriff's office. As of January 26, 2007, the Sheriff owed \$3,559 in 10% add-on fees to his fee account.

Note 6. Advertising Costs And Fees

The Pike County Sheriff collected \$5,530 of advertising costs and \$15,320 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs to the county as required by statute, and the advertising fees are to be used to operate the Sheriff's office.

Note 7. Unrefundable Duplicate Payments And Unexplained Receipts Should Be Escrowed

The Sheriff should deposit any unrefundable duplicate payments and unexplained receipts in an interest-bearing account. According to KRS 393.110, the Sheriff should properly report annually to the Treasury Department any unclaimed moneys. After three years, if the funds have not been claimed, the funds should be submitted to the Kentucky State Treasurer. For the 2005 taxes, the Sheriff had \$4,148 in unrefundable duplicate payments and unexplained receipts. Therefore, the Sheriff should send a written report to the Treasury Department.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Wayne T. Rutherford, Pike County Judge/Executive
Honorable Charles E. Keesee, Pike County Sheriff
Members of the Pike County Fiscal Court

Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the Pike County Sheriff's Settlement - 2005 Taxes as of August 28, 2006, and have issued our report thereon dated January 26, 2007. The Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Pike County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described in the accompanying comment and recommendation.

- The Sheriff's Office Lacks Adequate Segregation Of Duties

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe the reportable condition described above is a material weakness.



Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Pike County Sheriff's Settlement - 2005 Taxes as of August 28, 2006 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Crit Luallen', written in a cursive style.

Crit Luallen
Auditor of Public Accounts

January 26, 2007

COMMENT AND RECOMMENDATION

PIKE COUNTY
CHARLES E. KEESEE, SHERIFF
COMMENT AND RECOMMENDATION

As of August 28, 2006

INTERNAL CONTROL – REPORTABLE CONDITION:

The Sheriff's Office Lacks Adequate Segregation Of Duties

The Sheriff's internal control structure lacks adequate segregation of duties. There is limited staff size, which prevents adequate division of responsibilities. The Sheriff has statutory authority to assume the role as custodian of monetary assets as well as recorder of transactions and preparer of financial statements. In addition, management has considered additional costs when setting total employee salary limitations, and has decided to limit the number of personnel, and therefore accepts the risk for a lack of adequate segregation of duties. We recommend the Sheriff implement the following compensating controls to offset the lack of adequate segregation of duties:

- Cash periodically recounted and deposited by the Sheriff
- Periodic reconciliation of reports to source documents and cash ledgers by the Sheriff
- The Sheriff or someone independent of the Sheriff's office prepares bank reconciliations

Sheriff's Response:

I have started to periodically recount and deposit cash. We plan to implement additional procedures so we can have segregation of duties.

